

The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Coverage Support Programme

			2020	2021	2022F	
Price [PLN]	20,90	P/E	6,3	4,6	8,5	<b>Analyst:</b> Krystian Brymora krystian.brymora@bdm.pl tel.: (+48) 501 238 443
MC [mln PLN]	477,2	EV/EBITDA	3,1	4,5	4,5	
		EV/EBIT	4,0	6,6	7,2	
		P/BV	0,9	0,8	0,7	

**Last recommendation BDM: BUY with target price 44,3 PLN/share (2021/09/07) [LINK](#)**

**EBITDA for Q1'22 came in at PLN 36.8m, 22% ahead of expectations, despite a PLN 6.2m impairment charge on receivables (over PLN 50m total exposure to conflict-affected markets). Still strong sales and improving gross margin. Weak cash flow due to inventory growth and new loans to related parties - neutral;**

**BDM's comments:** in Q1'22 the Company posted EBITDA of PLN 36.8m (+22% vs. expectations) on sales of PLN 421.6m (+13% vs. expectations). Adjusted EBITDA amounted to PLN 42.7m (+41% vs. expectations). Sales in Q1'22 went up by 21% y/y. Sales in the American markets (+47% y/y) made up for lower growth in the East Europe (+13% y/y). The Western Europe and Polish markets grew by ca. 20% y/y. According to the company, "the increase in revenue relative to the comparative period is due to the continued increase in selling prices as a result of raw material inflation. The gross margin stood at 32.1%, higher q/q and higher than our assumptions (30.7%). The management commentary reads: "The Group continues to increase the share of sales of higher margin innovative products and to optimize product formulations."

**One offs:** Other operating income in Q1'22 was significantly impacted by a PLN 6.2m provision for trade accounts receivable.

**Free cash flow** in Q1'22 amounted to nearly PLN 30m. Free cash flow in Q1'22 amounted to nearly PLN -30m, with OCF of PLN -23.1m affected mainly by a PLN -98m increase in inventories due to dynamic growth in raw material prices and limited availability. The operating cycle extended by 17 days to 93 days. CAPEX amounted to PLN 12.9m vs. PLN 8.1m a year ago, but it fell short of our expectations. The Company extended further loans to an affiliate of its main shareholder in the amount of PLN 7.4m to a total of PLN 55.9m (PLN 2.4 per Selena share). As a result, net debt increased to PLN 175m and represented 1.2x EBITDA.

**Impact of the war in Ukraine:** according to the Management Board, the situation in Ukraine did not have a material impact on Selena's Q1'22 results, except for a provision for potential impairment of trade receivables and goodwill. As of 31 March 2022, the value of inventories of goods located in Eastern Europe amounted to PLN 20.1m. At the end of Q1'22, the balance of receivables from customers of unrelated companies in the region of potential geopolitical risk amounted to PLN 30.4m. The total exposure is over PLN 50m, or PLN 2.2 per share.

In summary, our approach to both 2021 and 2022 results in our last recommendation from September 2021 was very conservative (appropriate) in light of the large increase in raw material costs. **This approach gave room for positive surprises in 2022 with strong demand for construction materials observed and strong geographic diversification... were it not for the outbreak of war in Ukraine and the economic isolation of Russia.** We estimate that the company invested about 20% of its sales in Russia. As a result, we are lowering our Q2-4 forecasts with a risk of further downward revisions. However, given a strong Q1'22, in which the Company beat our higher-than-expected forecasts, our full-year guidance remains unchanged (ca. PLN 120m EBITDA in 2022P vs. PLN 115m in [Selena's buy rating at PLN 44.3/share](#)). We will comment on the valuation in the next recommendation.

Selena's Q1'22 earnings conference call is not scheduled. Below is a summary of our previous coverage as of 04.05.22

**Q4'21 results [PLNm]**

	IQ'20	IIQ'20	IIIQ'20	IVQ'20	IQ'21	IIQ'21	IIIQ'21	IVQ'21	IQ'22	YoY	IQ'22F BDM	difference
Revenues	282,7	319,5	433,3	349,2	349,5	438,2	493,1	447,6	421,6	21%	373,6	13%
EU	188,9	205,0	275,6	215,2	239,4	286,4	310,4	267,3	287,7	20%	263,0	9%
including Poland	103,9	128,6	159,3	105,0	123,6	160,0	182,7	134,9	147,1	19%	135,9	8%
Eastern Europe and Asia	73,0	99,1	133,8	108,9	82,5	123,2	145,9	147,2	93,4	13%	85,9	9%
America North / South	20,8	15,3	24,0	25,2	27,5	28,7	36,8	33,0	40,5	47%	24,8	63%
YoY	4,3%	-7,7%	10,6%	10,0%	23,6%	37,2%	13,8%	28,2%	20,6%		6,9%	
Gross profit on sales	90,6	112,3	155,9	109,3	104,1	124,3	137,8	113,5	135,2	30%	114,7	18%
SG&A costs	79,7	80,3	89,3	93,4	86,0	98,8	104,2	107,4	103,5	20%	96,0	8%
% revenues	28%	25%	21%	27%	25%	23%	21%	24%	25%		26%	
EBITDA adj.	20,5	41,0	76,3	26,0	28,1	36,6	45,0	17,3	42,7	52%	30,3	41%
EBITDA	18,8	43,8	76,0	27,1	30,3	39,5	47,8	18,6	36,8	22%	30,3	22%
EU	46,2	61,9	95,4	44,6	47,7	58,1	61,4	46,7	58,9	23%		
Eastern Europe and Asia	5,8	12,2	17,6	9,3	8,2	18,0	14,9	16,8	8,5	4%		
America North / South	1,8	2,1	0,3	2,2	2,4	3,4	2,7	-1,2	5,2	113%		
corrections	-35,0	-32,4	-37,2	-29,1	-28,1	-40,0	-31,2	-43,1	-35,8	28%		
EBIT	9,1	34,9	66,2	17,0	20,3	28,4	36,5	7,5	25,8	27%	18,7	37%
Gross profit	5,4	31,5	59,1	-0,7	21,6	27,2	38,4	1,2	28,8	33%	15,7	84%
Net profit	5,2	26,1	44,3	0,7	17,5	21,8	31,7	31,7	25,0	43%	11,3	122%
Gross margin on sales	32,0%	35,2%	36,0%	31,3%	29,8%	28,4%	28,0%	25,4%	32,1%		30,7%	
EBITDA margin	6,6%	13,7%	17,5%	7,7%	8,7%	9,0%	9,7%	4,2%	8,7%		8,1%	
Net margin	1,8%	8,2%	10,2%	0,2%	5,0%	5,0%	6,4%	7,1%	5,9%		3,0%	
OCF	-5,5	8,6	60,9	48,2	-9,5	-35,6	-33,9	48,8	-23,1		55,0	
CAPEX	-7,1	-6,2	-6,9	-52,7	-8,1	-8,6	-8,9	-10,3	-12,9		-12,9	
FCF	-12,8	1,7	54,1	36,1	-17,1	-43,6	-41,6	39,6	-29,9		40,0	
FCF12m/MC %	19%	15%	20%	17%	16%	6%	-14%	-13%	-16%		-1%	
Net Debt	74,6	73,8	24,5	32,2	52,2	97,1	144,3	138,3	174,9	235%	102,2	71%
/EBITDA 12m	0,7	0,7	0,2	0,2	0,3	0,6	1,0	1,0	1,2		0,8	
P/E						5,7	6,7	4,6	4,3			
EV/EBITDA						3,3	4,3	4,5	4,6			

Source: BDM S.A., company

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**Explanations of terminology:**

EBIT – earnings before interest and tax

EBITDA – earnings before interest, taxes, depreciation, and amortization

Net debt – interest bearing debt minus cash and equivalents

WACC – weighted average cost of capital

CAGR – cumulative average annual growth

EPS – earnings per share

DPS – dividend per share

CEPS – net profit plus depreciation per share

EV – market capitalization plus interest bearing debt minus cash and equivalents

EV/S – market capitalization / sales

EV/EBITDA – EV / sales

P/EBIT – market capitalization / EBIT

MC/S – market capitalization / sales

P/E – market capitalization / net profit

P/BV – market capitalization / book value

P/CE – market capitalization / net profit plus depreciation

ROE – net profit / equity

ROA – net income / assets

Gross margin – gross profit on sales / sales

EBITDA margin – EBITDA / sales

EBIT margin – EBIT / sales

Net margin – net profit / sales

**Explanation of ratings:**

Buy – we believe that the security will reach the target price in the recommended period, which significantly exceeds the current market price (at least + 15%);

Accumulate – we believe that the security will reach the target price in the recommended period, which exceeds the current market price (in the range of +5 to + 14.99%);

Hold – we believe that a security in the recommended period will fluctuate around the target price, which is close to the current market price (in the range from -4.99% to + 4.99%);

Reduce – we believe that the security will reach the target price in the recommended period, which is lower than the market price (range of decline from 5% to 14.99%);

Sell – we believe that a security in the recommended period will reach the target price, which is significantly lower than the market price (suggested erosion of the value exceeds 15%).

Target price – the theoretical price which, in our opinion, should reach a security in the recommended period; This price is the result of the company's value (eg based on DCF, comparative and other valuations), market conditions and the industry as well as other factors subjectively considered by the analyst.

Recommendations made by BDM are binding for 12 months from the issue date or until the target level is reached, unless they are updated during this period of time.

**Ratings and price targets history:**

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
<b>Buy</b>	<b>44,3</b>	---	---	<b>07.09.2021*</b>	<b>17:30 CEST</b>	<b>28,00</b>	<b>71 799</b>
Buy**	16,5	buy	14,4	31.05.2019	09:20 CEST	11,50	57 187
Buy**	14,4	sell	15,4	25.02.2019	09:35 CEST	9,45	60 454
Sell**	15,4	buy	21,3	11.09.2017	11:55 CEST	19,7	64 990
Buy**	21,3	buy	18,8	15.07.2016	08:49 CEST	17,05	45 246
Buy**	18,8	hold	22,3	15.02.2016		15,0	43 849
Hold**	22,3	buy	26,4	06.07.2015		20,3	52 467
Kupuj**	26,4	suspended	-	16.02.2015		18,3	52 561
Suspended**	-	accumulate	19,3	09.08.2012		5,83	41 254
Accumulate**	19,3	hold	20,5	13.06.2011		16,51	49 121
Hold**	20,5	reduce	17,0	06.04.2011		19,64	50 248
Reduce**	17,0	accumulate	17,0	10.12.2010		18,45	47 398
Accumulate**	17,0	buy	14,3	07.04.2010		15,1	43 500
Buy**	14,3	buy	18,7	15.10.2009		11,5	37 300
Buy**	18,7	-	-	30.07.2008		14,5	42 416

\* The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Support Programme. \*\* - the author of the reports on Selena in 2008-2019 was Krzysztof Pado.

**Distribution of BDM's recommendations in Q2'22\*:**

, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months

	number	%	number	%
Buy	3	60%	2	100%
Accumulate	0	0%	0	0%
Hold	2	40%	0	0%
Reduce	0	0%	0	0%
Sell	0	0%	0	0%

\* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months and information on the numbers of issuers to which BDM has supplied services of investment firms set out in Sections A and B of Annex I to Directive 2014/65/EU is included in a cyclical "Monthly Report" or at www.bdm.pl

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The report constitutes an investment research within the meaning of art. 36 §1 of Commission Delegated Regulation (EU) 2017/565.

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